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ANNUAL REPORT OF

MARSHALL FIELD & COMPANY

YEAR ENDED JANUARY 31, 1966

MARSHALL FIELD & COMPANY

founded in 1852
an Illinois corporation
incorporated in 1901

executive offices:

111 NORTH STATE STREET, CHICAGO, ILLINOIS 60690

1965

ANNUAL REPORT TO SHAREHOLDERS

General Counsel
WILSON & McILVAINE
Chicago

Public Accountants
ARTHUR ANDERSEN & CO.
Chicago

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
Chicago

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
New York

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
Chicago

BANKERS TRUST COMPANY
New York

THE STORY IN BRIEF
(in thousands of dollars)

	Fiscal Year		
	1965	1964	1963
Net Sales	$306,034	$280,105	$256,615
Income before Federal Taxes	28,246	24,497	19,040
Federal Taxes on Income	13,416	12,056	9,672
Net Income	14,830	12,441	9,368(1)
Net Income per Common Share	3.66	3.09	2.33(1)
Dividends Paid per Common Share	1.80(2)	1.60	1.45
Cash and Securities	21,981	34,655(3)	22,973
Accounts Receivable	42,511	25,621(3)	34,387
Merchandise Inventories	46,270	42,518	37,852
Working Capital	72,263	69,909	64,782
Ratio of Current Assets to Current Liabilities	2.8	3.0	3.1
Property and Equipment Expenditures			
Modernization and Replacement	3,027	3,177	2,100
Expansion	6,274	1,759	4,377
Depreciation	4,954	4,760	4,518
Common Shareholders' Equity	124,486	116,785	110,773
Book Value per Common Share	30.68	28.91	27.49

Notes: (1) Excludes net gain on land sale of $2,250,000 equivalent to 56 cents per Common Share.
(2) Annual dividend rate was $2.00 at the end of the fiscal year 1965, as the result of an increase in the quarterly rate from 45 cents to 50 cents in January 1966.
(3) At the end of the fiscal year 1964 cash and securities were increased and accounts receivable were decreased approximately $12,500,000 as the result of the sale of all installment receivables pursuant to adoption in 1965 of the installment method of tax accounting.

MARSHALL FIELD & COMPANY

The Board of Directors submits to the Shareholders this annual report for the fiscal year ended January 31, 1966.

The upward trend in sales and earnings of your Company continued in 1965, reflecting the strength of the nation's economy and high consumer demand. Both sales and earnings rose to record levels.

Net Sales for the year were $306,034,000, an increase of 9.3 per cent over last year's volume of $280,105,000. Sales were greater in each of our stores.

Net Income was $14,830,000 in 1965 compared with the $12,441,000 earned in the prior year, an improvement of 19 per cent. Of this increase $512,000 resulted from the reduction in the Federal income tax rate to 48 per cent, effective for our fiscal year 1965. The Company's allowable investment credit provided by Federal income tax laws added $70,000 to 1965 net income and $57,000 a year ago. The Company follows the policy of amortizing the investment credit over the depreciable life of the equipment involved.

Income Before Federal Taxes for the year was equal to 9.2 per cent of sales and 8.7 per cent in 1964.

Net Income per Common Share in 1965 was $3.66 compared with $3.09 in 1964.

Dividends were increased in January 1966 from a quarterly rate of 45 cents to 50 cents per Common Share, and the first dividend at the higher rate was paid February 28. On an annual basis this is equivalent to $2.00 per share compared to $1.80 paid in 1965 and $1.60 in 1964. This was the fifth dividend rate increase since October 1959.

Working Capital was $72,263,000 at the 1965 fiscal year-end compared with $69,909,000 at the prior year-end. The ratio of current assets to current liabilities was 2.8 to 1 and 3.0 to 1 at the end of the respective years.

Cash and Securities on January 31, 1966 totaled $21,981,000 and $22,255,000 on January 31, 1965. Receivables increased from $38,239,000 to $42,511,000, and the Company's investment in merchandise inventories rose from $42,518,000 to $46,270,000. As of January 31, 1965 all installment receivables were sold in order to adopt the installment method of tax accounting. A temporary effect of the sale was to increase short-term securities and decrease receivables by approximately $12,500,000 on that date. The foregoing comparisons of cash and securities and receivables exclude the effect of this transaction from the January 31, 1965 figures. The increase in accounts receivable was normal in relation to the year's sales volume, and the rise in merchandise inventory investment was mainly in support of the currently higher sales level.

Funded Debt was reduced by the prepayment of the principal amount of $1,000,000 in 1965 and at the year-end amounted to $23,000,000. Mandatory payments under this long-term loan are not required until 1972, and the Company has not elected to make a prepayment in 1966.

Minimum Rent Obligations under long-term leases amount to approximately $880,000 per annum.

Capital Expenditures during 1965 were $9,301,000 compared with $4,936,000 a year ago. Of the 1965 amount, $3,027,000 related to the modernization and replacement of existing properties, and the balance of $6,274,000 was spent on expansion projects including the purchase of a central warehouse and service facility. Depreciation amounted to $4,954,000 in 1965 and $4,760,000 in 1964. Capital expenditures in 1966 presently are estimated to be $10,000,000.

The Program to Improve and Modernize our present properties was continued throughout the year. Among the projects completed in the main Chicago store were the installation of a second bank of automatic elevators; the renovation of certain restaurant service areas; and the remodeling and redecorating of the second floor Wedding Bureau, Linen, Lamp and Glassware sections. A feature of Glassware is the new and beautiful Steuben room. Major renovations also were completed in apparel departments in both the main Chicago and Frederick & Nelson downtown stores. Additional programs are planned to keep the apparel areas in these stores inviting and attractive. Among the more important improvements under way in outlying stores is the installation of new automatic elevators in the Evanston and Oak Park stores.

Planning continues for further renovation of existing facilities. This will include the completion of the final phase of modernization of the Lake Forest store and projects relating to the Youth Floor, Food Pantry sales area and Budget Floor of the main Chicago store. Plans also will be developed for new decor and remodeling of this store's "28 Shop," whose reputation for fashion leadership is world-wide.

Expansion of our Old Orchard store, as previously announced, is under way. The construction of a third floor addition over the central core of this building will provide 75,000 square feet of new space. When the addition is completed, this store will have a total area of 445,000 square feet.

We also have announced plans for a new store in River Oaks, a regional shopping center presently under construction in the southeast suburban area of Chicago. The store will contain 260,000 square feet and is scheduled to open this coming fall.

In January 1966 the Company purchased a warehouse and service complex in Chicago containing an area of 1,500,000 square feet. This property will make possible the elimination of six existing warehouse and service locations through consolidation. It is our expectation that the central facility will enhance our customer service by simplifying and improving these operations. We also plan to operate a warehouse store in this property.

We continue to study possibilities for further expansion in the areas in which we operate as well as other opportunities for growth.

Retirement Program payments toward the 1965 costs totaled $1,730,000 compared with $1,629,000 in 1964. The market value of the Pension Trust assets on January 31, 1966 was $54,120,000. A total of $17,439,000 has been paid to 5,547 retired employes since the Trust was established in 1943.

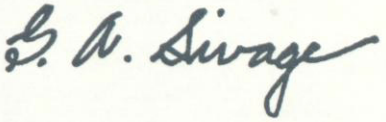
Sales Performance of all of our stores was highly satisfactory during the year. The Seattle units enjoyed marked sales increases as the year progressed, a result in part of improved economic conditions in that market. Particularly significant was a continuation of the upward sales trend of the main Chicago store. A key factor in this performance is the remarkable revitalization of the central city. The construction of new office and high-rise apartment buildings, the improved railway commuter service and public transportation system coupled with new expressways and parking facilities were all important contributing factors. The renewal of downtown areas, both in Chicago and Seattle, is especially helpful in the successful operation of our major units.

The current and prospective strength of consumer demand suggests further sales increases for the months immediately ahead. The increase, however, may be more modest than the exceptional gains of the past two years. Continually rising costs of doing business necessitate higher sales volume in order to maintain a favorable earnings trend. But we are confident that our various programs to sustain the Company's growth will produce satisfactory results if the present strength of the total economy continues.

We Record with Deep Sorrow the untimely death on September 18, 1965 of Mr. Marshall Field, the great-grandson of the Company's founder. He had served as a Director of the Company since 1953 and as a member of its Executive Committee since 1958. He bore the name of a distinguished American family and was deeply aware of its tradition and accomplishments. He chose to serve Chicago, and the community benefited greatly from his publishing enterprises and his philanthropic activities. He followed the family tradition of intense interest and pride in Marshall Field & Company. He was a man of genuine intellectual stature and accomplishment. His sudden passing was a great shock and loss to his country, to Chicago and to our Company.

In concluding this review of the year we must cite again with gratitude the continuing interest of our shareholders, the loyalty of our customers and suppliers and the dedicated efforts of the fine men and women of our organization.

By Order of the Board of Directors,



President

March 16, 1966

MARSHALL FIELD & COMPANY

INCOME STATEMENT

	Fiscal Year Ended	
	January 31, 1966	January 31, 1965
NET SALES	$306,034,046	$280,104,653
DEDUCT:		
Cost of goods sold and expenses, exclusive of items listed below	$261,940,574	$240,583,692
Maintenance and repairs	2,835,170	2,654,611
Depreciation and amortization	4,953,810	4,760,186
Taxes other than Federal income taxes	6,548,214	6,128,685
Rentals paid	1,083,648	983,256
Net interest expense	426,601	496,975
Federal income taxes	13,416,000	12,056,000
	$291,204,017	$267,663,405
NET INCOME FOR THE YEAR	$ 14,830,029	$ 12,441,248

Note: For the fiscal years ended January 31, 1966 and 1965, the cost of goods sold, buying and occupancy expenses were $215,485,017 and $197,920,020, respectively, and selling, general and administrative expenses were $61,876,399 and $57,190,410, respectively.

EARNED SURPLUS

BALANCE AT JANUARY 31, 1965	$ 87,992,752
Net income for the year	14,830,029
	$102,822,781
Cash dividends declared on Common Shares—$1.85 per share	7,505,196
BALANCE AT JANUARY 31, 1966	$ 95,317,585

SOURCE AND DISPOSITION OF FUNDS

	Fiscal Year Ended	
	January 31, 1966	January 31, 1965
SOURCE OF FUNDS:		
Net income for the year	$14,830,029	$12,441,248
Depreciation and amortization	4,953,810	4,760,186
	$19,783,839	$17,201,434
Sales of Common Shares under options	375,424	229,647
Miscellaneous	—	290,401
	$20,159,263	$17,721,482
DISPOSITION OF FUNDS:		
Additions to property and equipment	$ 9,300,640	$ 4,935,650
Dividends to shareholders	7,505,196	6,658,187
Payments on long-term debt	1,000,000	1,000,000
	$17,805,836	$12,593,837
INCREASE IN WORKING CAPITAL	$ 2,353,427	$ 5,127,645

MARSHALL FIELD & COMPANY BALANCE SHEET

	January 31, 1966	January 31, 1965
ASSETS		
CURRENT ASSETS:		
Cash	$ 9,230,430	$ 9,029,175
Short-term investments, at cost (see note)	12,750,806	25,625,376
Receivables from customers and others, including at January 31, 1965, $1,381,660 due from purchaser of installment receivables sold (see note), less allowance for doubtful accounts of $951,000 at the end of each year	42,510,901	25,620,910
Merchandise inventories, priced at the lower of cost or market	46,270,243	42,517,888
Prepaid insurance, supply inventories, etc.	1,220,682	1,434,736
Total Current Assets	$111,983,062	$104,228,085
PROPERTY AND EQUIPMENT:		
Land, at cost	$ 18,898,228	$ 18,277,954
Buildings, leaseholds and equipment, at cost	106,458,353	100,086,154
	$125,356,581	$118,364,108
Less—Accumulated depreciation and amortization	50,133,556	47,487,913
Net Property and Equipment	$ 75,223,025	$ 70,876,195
GOODWILL, TRADEMARKS, ETC.	$ 1	$ 1
	$187,206,088	$175,104,281

Note: As of January 31, 1965 all installment receivables were sold pursuant to the adoption effective February 1, 1965 of the installment method of tax accounting. At January 31, 1965 the effect of the sale was to increase short-term investments and decrease receivables by approximately $12,500,000.

	January 31, 1966	January 31, 1965
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 10,936,540	$ 8,676,657
Accrued Federal income taxes	10,965,539	10,177,899
Other accrued liabilities	17,818,394	15,464,367
Total Current Liabilities	$ 39,720,473	$ 34,318,923
3¾% NOTES, maturing from 1972 to 1982	$ 23,000,000	$ 24,000,000
SHAREHOLDERS' EQUITY:		
Cumulative Preferred Shares—		
Authorized 150,000 shares of $100 par value, issuable in series; no shares issued.		
Common Shares—		
Authorized 8,000,000 shares of no par value. At January 31, 1965, options for 68,010 shares were outstanding and 103,740 shares were available for granting of options. During the year options were exercised for 18,200 shares, and none were cancelled or granted. At January 31, 1966, options for 49,810 shares were outstanding at $14.50 to $51.25 per share, of which 27,130 shares were exercisable currently; 103,740 shares were available for granting of options.		
Issued and outstanding 4,057,376 shares at January 31, 1966, at stated value	$ 20,220,436	$ 19,845,012
Paid-in Surplus	8,947,594	8,947,594
Earned Surplus ($55,459,622 available for dividends on Common Shares under terms of 3¾% Notes)	95,317,585	87,992,752
Total Shareholders' Equity	$124,485,615	$116,785,358
	$187,206,088	$175,104,281

AUDITORS' REPORT

ARTHUR ANDERSEN & CO.

69 WEST WASHINGTON STREET
CHICAGO 60602

To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) as of January 31, 1966, and the related statements of income, earned surplus and source and disposition of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income, earned surplus and source and disposition of funds present fairly the financial position of Marshall Field & Company as of January 31, 1966, and the results of its operations and the source and disposition of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
March 4, 1966

BOARD OF DIRECTORS

EDWARD McC. BLAIR
JOHN M. BUDD
KENT CHANDLER
DAVID W. DAVIDSON
HENRY P. ISHAM
WILLIAM V. KAHLER
HUGHSTON M. McBAIN
JOHN McKINLAY
JAMES L. PALMER
GERALD A. SIVAGE

CORPORATE OFFICERS

GERALD A. SIVAGE	*President*
DAVID W. DAVIDSON	*Executive Vice President*
HARRY D. PERKINS	*Senior Vice President*
CORNELIUS J. BYRNE	*Vice President*
RALPH E. BOWERS	*Vice President and Secretary*
EARLE HARRISON	*Vice President and Treasurer*
GEORGE G. RINDER	*Vice President and Comptroller*
CHARLES M. RHODES	*Assistant Treasurer*
ROBERT A. WILBRANDT	*Assistant Secretary*

DIVISION OFFICERS

Chicago Stores Division

VERLE L. BARBER	*Vice President, Merchandising*
EINAR L. BJORKLUND	*Vice President, Merchandising*
JOSEPH A. BURNHAM	*Vice President, Operating*
WILLIAM L. ENGLISH	*Vice President, Divisional Comptroller*
JOSEPH N. FIELD	*Vice President, Merchandising*
CHARLES W. FOLDS	*Vice President, Merchandising*
CLARENCE T. GREGG	*Vice President, Merchandising*
CARL D. GULDAGER	*Vice President, Advertising and Public Relations*
CHARLES C. HOLLOWAY	*Vice President, Merchandising*
DONALD K. KEITH	*Vice President, Merchandising*
JOHN T. MOSS	*Vice President, Design*
LLOYD H. RICHMOND	*Vice President, Personnel*
WILLIAM C. STETSON	*Vice President, Merchandising*
PAUL H. STROHM	*Vice President, Merchandising*

Frederick & Nelson Division

JASPER UTZ	*Vice President, General Merchandise Manager*
M. L. STORHOW	*Vice President, General Operating Manager*

Mayfair Division

ARNOLD D. K. MASON	*Vice President, Merchandising*

STORE LOCATIONS

In the Chicago Area

Marshall Field & Company
111 North State Street, Chicago

Evanston
1700 Sherman Avenue, Evanston

Lake Forest
682 North Bank Lane, Lake Forest

Oakbrook
One Oakbrook Center Mall, Oak Brook

Oak Park
1144 Lake Street, Oak Park

Old Orchard
One Old Orchard, Skokie

Park Forest
333 Plaza, Park Forest

River Oaks (under construction)
159th Street and Torrence Avenue

In the Milwaukee Area

Mayfair
One Mayfair Mall North
Wauwatosa, Wisconsin

In the Seattle Area

Frederick & Nelson
5th and Pine Streets, Seattle

Aurora Village
20218 Aurora Village Square North
Seattle

Bellevue Square
Bellevue, Washington

COMMERCIAL FURNISHINGS

Contract Sales Division

201 Merchandise Mart
Chicago